

253

Statement

Insurance Association of Connecticut

Insurance and Real Estate Committee

March 2, 2010

SB 253, An Act Concerning Proof of Delivery Of
Cancellation Notification Of Life Insurance Policies

Susan

Giacalone

The Insurance Association of Connecticut (IAC) is opposed to SB 253, An Act Concerning Proof of Delivery Of Cancellation Notification Of Life Insurance Policies.

SB 253 seeks to require insurers to provide proof that written notice was delivered to an insured prior to canceling or discontinuing a life policy. No other state in the country has anything remotely resembling the requirements set forth in SB 253.

A life policy is either terminated or surrendered at the request of the insured or the policy lapses for nonpayment of premium or at the expiration of the term of the policy. A life policy that is surrendered or terminated at the insured's request does not generate a lapse notice. Likewise a policy that lapses because the term has expired also does not generate a lapse notice. Applying SB 253's requirements to such policies is impractical.

A life policy lapses when the insured fails to pay the premium due on the policy. Standard practice for the life industry is to provide multiple notices, and extremely generous grace periods, prior to the policy lapsing. For example, if an individual is paying one's premium on an annual basis, the insurer gives the insured three notices prior to the policy lapsing, which includes a grace period of more than six months to pay any outstanding balance.

SB 253's requirement that an insurer must provide proof of delivery is a standard that is not used and is a difficult standard to meet. One company alone determined that when

certified/registered mail is used, approximately 20% is returned unclaimed. How can an insurer prove the notice was received if the person simply does not pick up their mail? Therefore, pursuant to the provisions of SB 253, an insurer would have to keep a life policy in force even though it has not received any premium if it cannot prove that it delivered the lapse notice. People would simply stop paying their premiums.

Furthermore, SB 253's requirement that lapse notices must be sent by certified or registered mail will be unduly costly and burdensome. Insurers send out no less than three notices prior to a policy lapsing. Requiring that all such notices be sent via certified or registered mail with proof of delivery will require insurers to develop a whole new system for this process incurring significant costs to do so, in addition to the costs for the mailings. These costs will ultimately be passed on to the consumer.

SB 253's requirement that such notices include nonforfeiture benefits or cash surrender values is too broad and nonsensical. Policies offer a multitude of nonforfeiture benefits. It is unreasonable for a company to provide such information in the lapse notice since each notice would need to be crafted on a case-by-case basis. The cost to comply with this requirement would be prohibitive. This requirement is also redundant for products like whole life and universal life as the annual policy notices already include that information. Term life products typically do not even have a nonforfeiture benefit or cash surrender value.

The IAC respectfully requests your rejection of SB 253, as drafted.